Wage inequality and firm performance in Germany

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The personal economic literature discusses the relation between the wage structure within firm and performance of the firm. To investigate this relation for Germany I apply an approach of Winter-Ebmer and Josef Zweimüller (1999). In the first step the dispersion of wages within firms are estimated. The dispersion is measured by the standard deviation obtained by an OLS wage regression for each firms with at least 20 male employees. In the second step a model for the firm productivity is estimated – with the standard deviation as regressor. I use panel data form 1993 to 2001 and estimate an OLS model as well as a model with fixed firm effects. As measure of firm performance I use the value added per head. First results suggest a positive, but nonlinear relation between wage dispersion and firm output. If the wage inequality of a firm is low, more inequality is correlated with an higher firm performance, but if the inequality within the firm is already high, more inequality do not change firm performance.

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